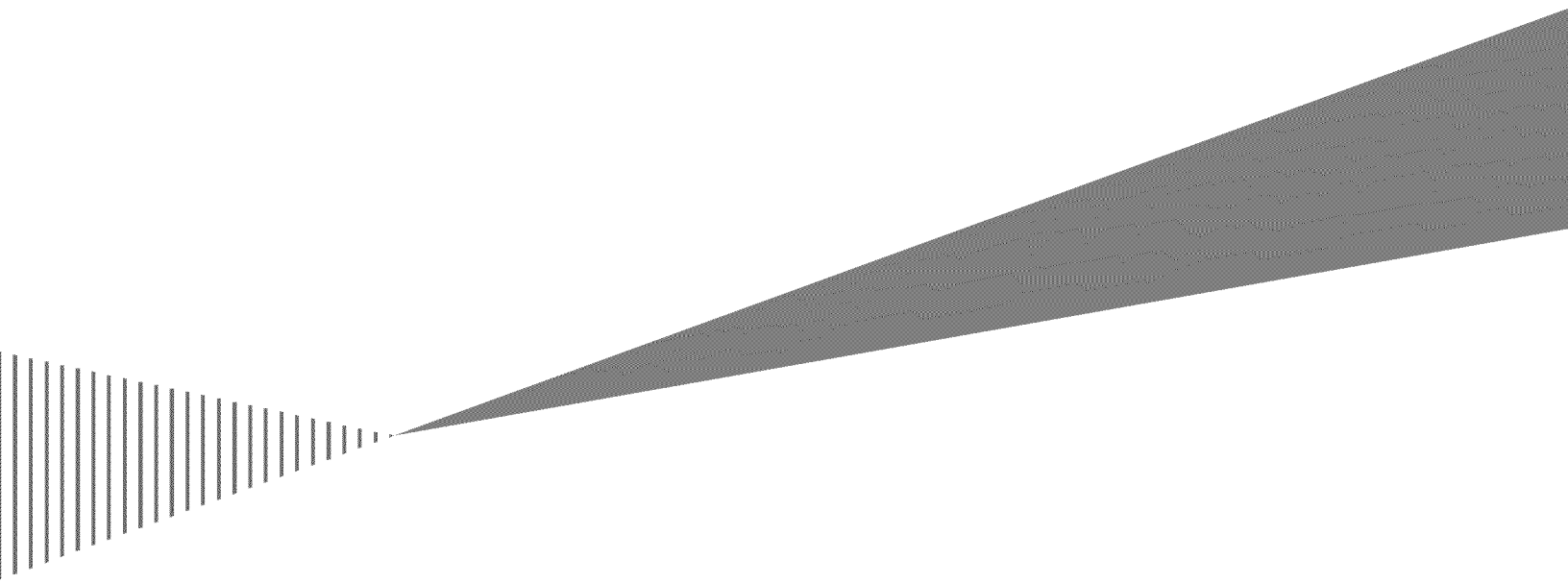
COMBINED FINANCIAL STATEMENTS

Purdue Pharma L.P. and Associated Companies, PRA Holdings, Inc. and Subsidiaries, Pharma Associates Inc., Pharma Associates L.P., IKUWA Holdings Inc., Purdue Products Inc., Purdue Pharmaceutical Products Inc., Norwell Land Company and Purdue Pharma Manufacturing Inc.
Collectively Referred to Herein as The "Companies"
Years ended December 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better working world

Purdue Pharma L.P. and Associated Companies, PRA Holdings, Inc. and Subsidiaries, Pharma Associates Inc., Pharma Associates L.P., IKUWA Holdings Inc., Purdue Products Inc., Purdue Pharmaceutical Products Inc., Norwell Land Company and Purdue Pharma Manufacturing Inc. Collectively Referred to Herein as The "Companies"

Combined Financial Statements

Years ended December 31, 2014 and 2013

Contents

Building a better working world

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Report of Independent Auditors

The Management and Boards of Directors
Purdue Pharma L.P. and Associated Companies,
PRA Holdings, Inc. and Subsidiaries,
Pharma Associates Inc., Pharma Associates L.P.,
IKUWA Holdings Inc., Purdue Products Inc.,
Purdue Pharmaceutical Products Inc.,
Norwell Land Company and Purdue Pharma Manufacturing Inc.
collectively referred to herein as the "Companies"

We have audited the accompanying combined financial statements of the Companies, which comprise the combined balance sheets as of December 31, 2014 and 2013, and the related combined statements of comprehensive income, equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Building a better working world

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Companies at December 31, 2014 and 2013, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 1, 2015

The Companies'

Combined Balance Sheets

	December 31 2014	2013
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,081,669**	$ 827,264
Receivables, net	**157,962**	166,819
Inventories	**48,741**	56,842
Prepaid expenses and other current assets	**26,279**	19,652
Restricted cash	**7,609**	16,762
Assets held for sale	**17,166**	–
Total current assets	**1,339,426**	1,087,339
Property and equipment, net	**149,540**	152,529
Restricted cash	**17,036**	16,924
Intangible assets, net	**109,247**	115,909
Goodwill	**23,396**	23,396
Deferred income taxes	**6,698**	6,920
Other assets	**23,817**	23,964
Total assets	**$ 1,669,160**	$ 1,426,981
Liabilities and equity		
Current liabilities:		
Accounts payable	**$ 67,973**	$ 89,604
Accrued expenses and other liabilities	**629,607**	534,255
Total current liabilities	**697,580**	623,859
Other liabilities	**190,636**	163,091
Total liabilities	**888,216**	786,950
Commitments and contingencies *(Notes 19 and 20)*	**–**	–
Equity:		
Common stock	**5**	5
Additional paid-in capital	**1,388**	1,388
Common stock subscription receivable	**(999)**	(999)
Partners' capital	**830,740**	671,455
Retained earnings	**27,931**	25,893
Accumulated other comprehensive loss	**(78,121)**	(57,711)
Total equity	**780,944**	640,031
Total liabilities and equity	**$ 1,669,160**	$ 1,426,981

See accompanying notes.

The Companies'

Combined Statements of Comprehensive Income

	Year ended December 31	
	2014	**2013**
	(In Thousands)	
Net sales	**$ 2,050,551**	$ 2,094,383
Cost of sales	**292,948**	273,510
Gross profit	**1,757,603**	1,820,873
Operating expenses:		
Selling and promotion	**261,579**	280,444
General and administrative	**297,937**	306,348
Research and development	**239,700**	323,397
Restructuring charges	**36,052**	–
Other operating income, net	**(38,404)**	(95,972)
Total operating expenses	**796,864**	814,217
Operating income	**960,739**	1,006,656
Other income:		
Interest income	**152**	108
Total other income	**152**	108
Income before taxes	**960,891**	1,006,764
Income tax provision	**1,568**	829
Net income	**959,323**	1,005,935
Other comprehensive (loss) income:		
Employee benefit plans, net of tax	**(20,410)**	84,384
Realized gain on investment	**–**	(97,469)
	(20,410)	(13,085)
Comprehensive income	**$ 938,913**	$ 992,850

See accompanying notes.

The Companies'

Combined Statements of Equity

	Common Stock	Additional Paid-In Capital	Common Stock Subscription Receivable	Partners' Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
				(In Thousands)			
Balance at December 31, 2012	$ 5	$ 1,388	$ (999)	$ 839,100	$ 21,197	$ (44,626)	$ 816,065
Net income	–	–	–	1,001,239	4,696	–	1,005,935
Other comprehensive income	–	–	–	–	–	(13,085)	(13,085)
Investment distributions:							
Purdue Pharma L.P.	–	–	–	(230,096)	–	–	(230,096)
Partners' capital distributions:							
Pharma Associates L.P.	–	–	–	(30)	–	–	(30)
Norwell Land company	–	–	–	(5,144)	–	–	(5,144)
Purdue Pharma L.P.	–	–	–	(933,614)	–	–	(933,614)
Balance at December 31, 2013	5	1,388	(999)	671,455	25,893	(57,711)	640,031
Net income	–	–	–	**957,285**	**2,038**	–	**959,323**
Other comprehensive loss	–	–	–	–	–	**(20,410)**	**(20,410)**
Partners' capital distributions:							
Pharma Associates L.P.	–	–	–	**(22)**			**(22)**
Norwell Land company	–	–	–	**(711)**	–	–	**(711)**
Purdue Pharma L.P.	–	–	–	**(797,267)**	–	–	**(797,267)**
Balance at December 31, 2014	**$ 5**	**$ 1,388**	**$ (999)**	**$ 830,740**	**$ 27,931**	**$ (78,121)**	**$ 780,944**

See accompanying notes.

The Companies'

Combined Statements of Cash Flows

	Year ended December 31	
	2014	**2013**
	(In Thousands)	
Operating activities		
Net income	**$ 959,323**	$ 1,005,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**31,117**	31,508
Deferred income taxes	**222**	(354)
Loss on disposal of assets	**101**	26
Gain on investment in marketable securities	**–**	(138,015)
Asset impairments	**7,181**	50,500
Non-cash restructuring charges	**8,065**	–
Changes in operating assets and liabilities:		
Receivables	**8,857**	54,365
Inventories	**8,101**	(7,834)
Prepaid expenses and other assets	**(6,480)**	3,924
Accounts payable	**(21,631)**	22,165
Accrued expenses and other liabilities	**102,487**	15,306
Net cash provided by operating activities	**1,097,343**	1,037,526
Investing activities		
Capital expenditures	**(46,275)**	(27,740)
Purchase of patent and product rights	**(7,704)**	–
Decrease in restricted cash	**9,041**	7,446
Net cash used in investing activities	**(44,938)**	(20,294)
Financing activities		
Distributions to partners	**(798,000)**	(938,788)
Net cash used in financing activities	**(798,000)**	(938,788)
Increase in cash and cash equivalents	**254,405**	78,444
Cash and cash equivalents at beginning of year	**827,264**	748,820
Cash and cash equivalents at end of year	**$ 1,081,669**	$ 827,264
Supplemental cash flow information:		
Income taxes paid	**$ 3,607**	$ 1,786

See accompanying notes.

The Companies'

Notes to Combined Financial Statements

December 31, 2014

1. Organization and Basis of Presentation

The accompanying combined financial statements include Purdue Pharma L.P. (PPLP) and Associated Companies, PRA Holdings, Inc. and Subsidiaries, all of which are wholly owned, Pharma Associates Inc., Pharma Associates L.P., IKUWA Holdings Inc., Purdue Products Inc., Purdue Pharmaceutical Products Inc., Norwell Land Company, Purdue Pharma Manufacturing Inc. and which are combined as required by various financing agreements (collectively referred to herein as the Companies). All significant intercompany transactions and accounts have been eliminated.

The Companies primarily develop, manufacture and sell pharmaceutical products. The Companies' products are marketed primarily to the medical and healthcare industries in the United States (U.S.). The Companies are subject to the risks and uncertainties associated with a pharmaceutical company. These risks and uncertainties include, but are not limited to, technological changes, dependence on branded products currently in the marketplace, the successful completion of development efforts and obtaining regulatory approval, compliance with government regulations, patent infringement litigation, product liability litigation, antitrust litigation and competition from current and potential competitors. The Companies continually monitor the business environment and take proactive measures as market conditions dictate.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Companies consider all highly liquid instruments, with a maturity of less than 90 days when acquired, to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market, computed using the first-in, first-out method.

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and depreciated primarily using the straight-line method over the estimated useful livesof the related assets, as follows:

Buildings	20 to 40 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Computer software and equipment	4 or 5 years
Leasehold improvements	3 to 20 years

Leasehold improvements are depreciated over the lesser of the assets' useful lives or the term of the lease.

Assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Once classified as assets held for sale, property and equipment are no longer depreciated.

Goodwill and Intangibles

U.S. GAAP requires goodwill and indefinite lived intangible assets to be assessed annually for impairment. The Companies completed the annual impairment test for 2014 in the fourth quarter and concluded that there was no impairment. Future impairment tests will be performed annually in the fourth quarter, or sooner if a triggering event occurs. The Companies have one reporting unit for goodwill impairment testing purposes.

Goodwill and indefinite lived intangibles are stated at cost and not subject to amortization. Finite lived intangible assets are amortized using the straight-line method over the estimated useful lives of the related assets up to eight years.

Long-Lived Asset Impairments

In accordance with U.S. GAAP, the Companies evaluate the carrying value of identifiable intangible assets and long-lived assets in relation to the estimated undiscounted cash flows of the underlying assets if impairment indicators are present. If the undiscounted expected cash flows are less than the carrying amount, an impairment loss is recognized to reduce the carrying amount to fair value (see Note 6).

2. Significant Accounting Policies (continued)

Research and Development

Research and development costs are charged to expense as incurred.

Advertising Costs

Advertising costs are included in selling and promotion in the period incurred and approximated $48.9 million and $79.9 million for the years ended December 31, 2014 and 2013, respectively.

Revenue Recognition

Revenue from sales of products is recognized at the time title passes to the customer, which generally occurs upon receipt by the customer. Rebates that may be due upon sale by distributors to their customers and estimated sales returns are recorded at the time that revenue is recognized.

In limited circumstances, where a new product is not an extension of an existing line of product or no historical experience with products in a similar therapeutic category exists, revenue is deferred until the right of return no longer exists or sufficient historical experience to estimate sales returns is developed.

The Companies establish accruals for returns, chargebacks, Medicaid, Medicare and commercial rebates in the same period as the related sales are recognized. The accruals reduce revenues. Accrued returns are included in receivables. Rebate and chargeback accruals are included in accrued expenses. At the time a rebate or chargeback payment is made or a product return is received, which occurs after the related sale, the Companies record a reduction to accrued expenses and, at the end of each reporting period, adjust accrued expenses for differences between estimated and actual payments. Due to estimates and assumptions inherent in determining the amount of returns, chargebacks and rebates, the actual amount of product returns and claims for chargebacks and rebates may be different from estimates.

In 2012, The Centers for Medicare and Medicaid Services issued a proposed rule which clarifies how certain rebates should be calculated. If that proposed rule becomes effective in its current form, the Companies would be required to record additional rebates of $264.4 million relating to the years ending December 31, 2010 through December 31, 2014.

2. Significant Accounting Policies (continued)

The Companies record rebate accruals on the value of inventory held within the distribution channel that has not been consumed by the end customer as of a reporting date. The Companies regularly review information to confirm amounts of inventory in the distribution channel such as data from several large customers' inventory management systems, and for other customers, data from third parties to help understand the amount of inventory held by retail.

Royalty revenue from the licensing of product rights is recorded over the periods earned and is classified as other operating income (see Note 11).

Shipping and Handling Costs

All shipping and handling costs are included in cost of sales.

Income Taxes

PRA Holdings, Inc. and its subsidiaries file tax returns and the related tax provision is included in the accompanying financial statements. Deferred taxes for PRA Holdings, Inc. are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates expected to be in effect when the temporary differences reverse.

Earnings and losses of the partnerships flow through to the partners' tax returns. With the exception of a minimal amount of entity-level state income taxes, the partnerships are not subject to any federal or state income taxes, nor are they entitled to any financial statement tax benefits resulting from operating losses. Accordingly, the accompanying financial statements include a tax provision only for entity-level state income taxes related to the partnerships. Payments made to taxing authorities on behalf of the partners related to partnership income are recorded as capital distributions to the partners.

Business Concentrations

There is no single geographic concentration of sales or related accounts receivable in the United States. The Companies sell a significant portion of their products to third-party resellers and, as a result, maintain individually significant receivable balances with those resellers.

2. Significant Accounting Policies (continued)

The three largest customers accounted for 88% of accounts receivable-trade as of December 31, 2014 and 2013, as well as 89% of gross sales for the years ended December 31, 2014 and 2013. Receivables generally are due within 35 days.

Credit is extended to customers based on an evaluation of their financial condition and collateral is not required. The evaluation of the financial condition of customers is performed to reduce the risk of loss. The Companies maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. Past due status of accounts receivable is determined primarily based upon contractual terms and uncollectible trade accounts receivable are written off once it is deemed that the accounts will not be collected. Account write-offs have historically been de-minimis.

Revenue from the sales of the Companies' OxyContin® Tablets (OxyContin) product was 89% and 91% of gross sales for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Companies' workforce did not include union employees.

Fair Values of Financial Instruments

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value by establishing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets that are available at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices of similar assets or liabilities in active markets or quoted prices for identical or similar assets in markets that are not active.

Level 3 – Prices or valuations where there is little if any market activity and require inputs that are significant and unobservable.

2. Significant Accounting Policies (continued)

The Companies' financial instruments include cash and cash equivalents, accounts and loans receivable and accounts payable. All of these financial instruments are accounted for on an historical cost basis, which due to the nature of these instruments, approximates fair value at the balance sheet dates. The fair values of marketable securities are determined by quoted prices, in active markets, for each specific security (Level 1).

Subsequent Events

The Companies have evaluated subsequent events through April 1, 2015, which represents the date the financial statements were available to be issued and concluded that there are no significant subsequent events that would have a material impact on the Companies' combined financial statements.

Accounting Developments

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires reporting the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified to net income in its entirety as well as additional disclosure requirements for other amounts which require reclassification under U.S. GAAP. The Companies adopted this guidance effective January 1, 2014 and it did not have an impact on the Companies' combined financial statements.

In February 2013, the FASB issued ASU 2013-03 to clarify the scope and applicability of a disclosure exemption for nonpublic entities. The Companies adopted this guidance effective January, 1, 2013, and it did not have an impact on the Companies' financial position or results of operations.

In April 2014, the FASB issued amended guidance related to discontinued operations. The new guidance limits the presentation of discontinued operations to business circumstances when the disposal of the business operation represents a strategic shift that has had or will have a major effect on operations and financial results. This guidance is effective for fiscal years beginning January 1, 2015. The Companies believe that the adoption of this new standard will not materially impact its combined financial statements.

2. Significant Accounting Policies (continued)

In August 2014, the FASB issued amended guidance related to disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, as necessary, to provide related footnote disclosures. The guidance has an effective date of December 31, 2016. The Companies believes that the adoption of this new standard will not have a material impact on its combined financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for accounting for revenue from contracts with customers and will supersede most existing revenue recognition guidance. Early adoption is not permitted. The Companies are currently evaluating the potential effect of the amended guidance on its combined financial statements. The guidance has an effective date for annual reporting periods beginning after December 15, 2017.

3. Restricted Cash

In December 2005, PPLP contributed $50.0 million into a trust in connection with certain legal proceedings. As of December 31, 2014 and 2013, the balance in the trust was $7.6 million and $16.8 million, respectively. During 2014 and 2013, $9.0 million and $7.0 million was refunded to PPLP, respectively.

As of December 31, 2014 and 2013, the Companies had restricted cash of $17.0 million and $16.9 million, respectively, related to their cash collateralized standby letters of credit (see Note 12).

4. Receivables

	December 31 2014	2013
	(In Thousands)	
Accounts receivable – trade, net	**$ 115,753**	$ 134,502
Accounts receivable – associated companies	**39,650**	26,900
Other receivables	**2,559**	5,417
	$ 157,962	$ 166,619

Accounts receivable – trade are net of allowances for doubtful accounts, sales returns and customer payment discounts of $93.3 million and $126.9 million at December 31, 2014 and 2013, respectively.

5. Inventories

	December 31 2014	2013
	(In Thousands)	
Raw materials	**$ 14,416**	$ 26,510
Work in process	**15,233**	7,441
Finished goods	**19,092**	22,891
	$ 48,741	$ 56,842

6. Intangible Assets

	December 31, 2014		December 31, 2013	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
	(In Thousands)			
Assets subject to amortization:				
Marketing rights – Dilaudid®	**$ 41,436**	**$ 17,483**	$ 48,617	$ 14,653
Patent rights – OxyContin	**23,982**	**11,580**	23,982	7,362
Patent rights – Hysingla®	**7,704**	**–**	–	–
Patent rights – BUTRANS®	**815**	**544**	815	407
	73,937	**29,607**	73,414	22,422
Assets not subject to amortization:				
Trademarks and product rights	**64,917**	**–**	64,917	–
	64,917	**–**	64,917	–
	$ 138,854	**$ 29,607**	$ 138,331	$ 22,422

In December 2007, 3XP acquired the rights to certain Dilaudid® and Dilaudid® HP pain medications in the United States, its territories and possessions for $50.0 million. In March 2008, 3XP purchased for an additional $45.5 million the United States rights to the remaining Dilaudid and Dilaudid HP pain medications not previously acquired and assumed liability for returns of products sold prior to its acquisition of $3.6 million. Those payments were capitalized and were being amortized over their estimated useful lives. In 2014 and 2013, based on indicators of impairment, specifically a significant decrease in sales from 2013 to 2014 and 2012 to 2013, respectively, as well as lower long term sales projections, the Companies estimated future cash flows to evaluate the fair value of the capitalized rights to Dilaudid and Dilaudid HP pain medications. As a result of these evaluations those assets were written down to their fair value of $24.0 million and $34.0 million as of December 31, 2014 and 2013, respectively, and an impairment charge of $7.2 million and $50.5 million was recognized in Other Operating Income for the years ended December 31, 2014 and 2013, respectively. The remaining capitalized amounts are being amortized over their estimated useful lives of eight years through the end of 2022.

6. Intangible Assets (continued)

When the Companies are required to determine the fair value of intangible assets the Companies use a discounted cash flow method. The Companies start with a forecast of all expected net cash flows associated with the asset including a terminal value and then apply an asset specific discount rate to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected cash flows, which includes a decline in annual sales of 10% per year, the discount rate of 10.5% which seeks to reflect the various risks inherent in the projected cash flows, and the tax rate. The fair value measurements used in the calculation are all Level 3.

Redacted

6. Intangible Assets (continued)

Redacted

The trademarks and products rights not subject to amortization are related to the Colace®, Peri-Colace®, Slow-mag® and mineral oil products.

Amortization expense for five succeeding years is estimated as follows:

2015	$ 6,974
2016	6,974
2017	6,091
2018	4,860
2019	4,860

7. Other Assets

	December 31	
	2014	**2013**
	(In Thousands)	
Prepaid rent	**$ 10,385**	$ 11,904
Lease security deposit	**6,000**	6,000
Loan receivable *(see Note 18)*	**2,500**	2,750
Other assets	**4,932**	3,310
	$ 23,817	$ 23,964

8. Property and Equipment

	December 31 2014	2013
	(In Thousands)	
Land and buildings	**$ 44,467**	$ 54,043
Leasehold improvements	**35,690**	78,171
Machinery and equipment	**119,297**	146,282
Computer software and equipment	**196,322**	194,217
Furniture and fixtures	**15,470**	15,520
Construction in progress	**40,709**	7,946
	451,955	496,179
Accumulated depreciation	**(302,415)**	(343,650)
	$ 149,540	$ 152,529

Depreciation expense for the years ended December 31, 2014 and 2013, was $23.9 million and $24.7 million, respectively.

The Companies' primary manufacturing location is in Wilson, North Carolina. The Companies commenced construction of a manufacturing facility in Treyburn, North Carolina in 2013 and plan to commence occupancy in mid-2015, the manufacture of validation batches in late 2015 and the supply of commercial product by 2017. The companies are executing against a plan to sell their Totowa manufacturing facility which is expected to be completed by the end of 2015. As a result, the carrying value of the Totowa facility of $17.2 million, which is lower than the fair value less cost to sell, has been classified as an asset held for sale.

The carrying values as of December 31, 2014 of the major classes of assets held for sale are as follows:

Land	$ 2,476
Buildings	13,985
Machinery and equipment	705
	$ 17,166

9. Accrued Expenses and Other Liabilities

	December 31 2014	2013
	(In Thousands)	
Rebates	**$ 390,718**	$ 332,927
Bonuses, salaries, and benefits	**63,309**	61,858
Legal expenses	**16,426**	18,385
Legal settlement accrual *(see Note 20)*	**65,420**	60,500
Royalty expenses	**32,355**	30,614
Health care reform fee	**30,899**	2,854
Other accrued expenses	**19,913**	12,586
Due to associated companies	**10,567**	14,531
	$ 629,607	$ 534,255

10. Other Long-term Liabilities

	December 31 2014	2013
	(In Thousands)	
Employee benefits liability *(see Note 14)*	**$ 159,993**	$ 132,631
Other long-term liabilities	**30,643**	30,460
	$ 190,636	$ 163,091

11. Other Operating Income, net

	Year Ended December 31	
	2014	2013
	(In Thousands)	
OxyContin royalty income *(see Note 18)*	**$ (46,468)**	$ (48,465)
Legal settlements *(see Note 20)*	**5,500**	41,759
Insurance recoveries *(see Note 20)*	**(315)**	(990)
Gain on disposal of marketable securities *(see Note 19)*	**–**	(138,015)
Impairment of intangible assets	**7,181**	50,500
Other	**(4,302)**	(761)
	$ (38,404)	$ (95,972)

12. Debt

On November 14, 2012, the Companies renewed their existing credit facility (the Credit Facility) through November 14, 2015. The commitment under the Credit Facility was $45 million as of December 31, 2014 and 2013. The Credit Facility is used to issue letters of credit and may be used for other general corporate purposes. The Credit Facility provides the borrowers a choice of paying interest based on the Eurodollar Rate or at the Base Rate (each as defined in the Credit Facility), plus in each case, an applicable margin. All borrowings (including the issuance of letters of credit) under the Credit Facility require cash collateralization. As of December 31, 2014 and 2013 there were no outstanding borrowings.

The Companies had $15.3 million and $15.2 million of cash collateralized standby letters of credit outstanding as of December 31, 2014 and 2013, respectively (see Note 3). These were collateralized with restricted cash of $17.0 million and $16.9 million as of December 31, 2014 and 2013, respectively.

In February 2015, PharmIT Inc. and PharmIT L.P. were added as guarantors to the Credit Facility.

13. Income Taxes

Significant components of the income tax provision (benefit) are as follows:

	Year Ended December 31	
	2014	2013
	(In Thousands)	
Current:		
Federal	**$ 737**	$ 1,819
State	**704**	609
	1,441	2,428
Deferred:		
Federal	**132**	(1,299)
State	**(5)**	(300)
	127	(1,599)
Total	**$ 1,568**	$ 829

Significant components of the Companies' deferred tax assets and liabilities are as follows:

	December 31	
	2014	2013
	(In Thousands)	
Deferred tax assets:		
Employee benefit programs	**$ 731**	$ 912
Property and equipment	**4,794**	5,458
Accumulated other comprehensive income	**2,087**	2,183
Other	**6**	43
Total deferred tax assets	**7,618**	8,596
Deferred tax liabilities:		
Pension	**610**	1,349
Other	**310**	327
Total deferred tax liabilities	**920**	1,676
Net deferred tax assets before valuation allowance	**6,698**	6,920
Valuation allowance	**–**	–
Net deferred tax assets	**$ 6,698**	$ 6,920

13. Income Taxes (continued)

Income tax expense differs from the amount computed at the statutory U.S. federal income tax rate principally due to state income taxes and partnership income or losses, which are not included in the Companies' tax returns.

14. Pension and Postretirement Benefit Plans

Certain entities included in the combined financial statements provide retirement benefits to substantially all U.S. non-union employees through The Purdue Pharma L.P. Pension Plan (PPLP Plan), a noncontributory defined benefit pension plan. A separate defined benefit plan, The P.F. Laboratories, Inc. Pension Plan (PF Labs Plan), is maintained for employees that had been covered under a collective bargaining agreement that is based on negotiated benefits and years of service. Effective June 30, 2009, all then actively employed participants of the PF Labs Plan were terminated. There have been no participants employed or accruing benefits under the plan since that time.

The PPLP Pension Plan was amended effective January 1, 2013. If an employee was actively employed on January 1, 2013 and on that date had reached their 45th birthday and their age plus years of service total 50 or more, they will continue to participate in the Pension Plan. For all other employees, as of January 1, 2013, PPLP made additional contributions into their 401(k) Plan and they ceased to accrue benefits in the Pension Plan as of December 31, 2012. The benefit that they have accrued in the Pension Plan as of December 31, 2012, once vested, will be payable upon retirement. Other than these additional 401(k) plan contributions, the current 401(k) Plan remains unchanged.

Effective January, 1, 2015, the postretirement plan was amended to reduce the future eligibility for post 65 coverage and post 65 benefit amounts to a subset of the population. These amendments have been incorporated into the measurement as of December 31, 2014.

14. Pension and Postretirement Benefit Plans (continued)

The annual benefit cost of the pension plans and the postretirement plans for the years ended December 31, 2014 and 2013 are as follows:

	Pension Plans Years Ended December 31		Postretirement Plans Years Ended December 31	
	2014	**2013**	**2014**	**2013**
	(In Thousands)			
Components of net periodic benefit cost				
Service cost	**$ 11,462**	$ 12,140	**$ 6,150**	$ 8,102
Interest cost	**14,328**	13,049	**3,519**	3,644
Expected return on plan assets	**(18,346)**	(15,707)	**–**	–
Amortization of net transition obligation	**–**	–	**17**	25
Amortization of prior service cost	**78**	78	**(206)**	(132)
Amortization of prior experience loss	**3,056**	7,287	**322**	742
Net amortization and deferral	**–**	–	**–**	652
Adjustment for additional expense	**–**	–	**158**	213
Curtailment loss (gain)	**84**	–	**(234)**	–
Net periodic benefit cost	**$ 10,662**	$ 16,847	**$ 9,726**	$ 13,246

Amounts expected to be recognized in net periodic benefit cost in the coming year for the Companies' pension plans and the postretirement plans (in thousands):

Amortization of net actuarial losses	$ 7,729
Amortization of prior service cost	(1,987)
Amortization of net transition obligation	–

Weighted-average assumptions for the net periodic benefit cost:

	Pension Plans Years Ended December 31		Postretirement Plans Years Ended December 31	
	2014	**2013**	**2014**	**2013**
Discount rate	4.80% / 4.15%	3.95%	5.20%	4.30%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

14. Pension and Postretirement Benefit Plans (continued)

Due to a curtailment triggered as of June 30, 2014, a discount rate of 4.80% was used for the period of January 1, 2014 through June 30, 2014. A discount rate of 4.15% was used for the period July 1, 2014 through December 31, 2014.

The following table displays the assumed health care cost trend rates:

	2014			2013		
	<65	**>65**	**AARP**	**<65**	**>65**	**AARP**
Health care cost trend rate assumed for 2015	**6.5%**	**6.1%**	**6.1%**	6.8%	6.3%	6.3%
Rate to which the cost trend rate is assumed to decline (ultimate trend)	**5.0%**	**5.0%**	**5.0%**	5.0%	5.0%	5.0%
Year the rate reaches the ultimate trend rate	**2020**	**2020**	**2020**	2020	2020	2020

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In Thousands)	
Effect on total of service and interest cost components in the year ended December 31, 2014	$ 2,155	$ (1,631)
Effect on accumulated post retirement benefit obligation as of December 31, 2014	$ 9,281	$ (7,354)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at December 31, 2014 and 2013, for the Companies' defined benefit pension and postretirement plans:

14. Pension and Postretirement Benefit Plans (continued)

	Pension Plans December 31		Postretirement Plans December 31	
	2014	**2013**	**2014**	**2013**
	(In Thousands)			
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 311,371**	$ 337,439	**$ 76,453**	$ 89,827
Service cost	**11,462**	12,140	**6,150**	8,102
Interest cost	**14,328**	13,049	**3,519**	3,644
Amendments	**–**	–	**(25,297)**	(992)
Impact of curtailment	**(4,845)**	–	**(8,006)**	–
Actuarial (gain) loss	**49,280**	(38,432)	**7,794**	(21,599)
Transfer of obligation to associated entities	**(217)**	(270)	**(59)**	(100)
Benefits paid	**(13,250)**	(12,555)	**(1,843)**	(2,429)
Benefit obligation at end of year	**$ 368,129**	$ 311,371	**$ 58,711**	$ 76,453
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 253,002**	$ 225,098	**$ –**	$ –
Actual return on plan assets	**13,693**	31,223	**–**	–
Employer contribution	**11,156**	9,311	**1,843**	2,429
Transfer of assets to associated entities	**(176)**	(75)	**–**	–
Benefits paid	**(13,250)**	(12,555)	**(1,843)**	(2,429)
Fair value of plan assets at end of year	**$ 264,425**	$ 253,002	**$ –**	$ –
Funded status of plan at end of year	**$ (103,704)**	$ (58,369)	**$ (58,711)**	$ (76,453)

14. Pension and Postretirement Benefit Plans (continued)

	Pension Plans December 31		Postretirement Plans December 31	
	2014	2013	2014	2013
	(In Thousands)			
Amounts recognized in the Companies' balance sheet consist of:				
Prepaid pension cost	$ –	$ 128	$ –	$ –
Current liabilities	–	–	**(2,422)**	(2,320)
Non-current liabilities	**(103,704)**	(58,497)	**(56,289)**	(74,133)
Total recognized in combined balance sheet	$ **(103,704)**	$ (58,369)	$ **(58,711)**	$ (76,453)
Amounts recognized in accumulated other comprehensive loss consist of:				
Net actuarial loss	$ **106,600**	$ 60,**609**	$ **394**	$ 1,036
Prior service cost	**457**	620	**(27,243)**	(2,388)
Transition obligation	–	–	–	17
Total before tax effects	$ **107,057**	$ 61,229	$ **(26,849)**	$ (1,335)
Accumulated benefit obligation	$ **347,067**	$ 285,250	$ –	$ –
Changes in Plan assets and benefit obligations recognized in other comprehensive loss and net income:				
Net periodic benefit cost	$ **10,662**	$ 16,848	$ **9,726**	$ 13,246
Net actuarial (gain) loss	**49,089**	(54,151)	**(371)**	(21,835)
Amortization of net actuarial loss	**(3,056)**	(7,288)	**(322)**	(1,395)
Impact of transfers	**(42)**	–	**51**	–
Prior service cost	**(85)**	–	**(25,062)**	(990)
Amortization of prior service cost	**(78)**	(78)	**207**	132
Amortization of transition obligation	–	–	**(17)**	(25)
Total recognized in other comprehensive loss, before tax	$ **45,828**	$ (61,517)	$ **(25,514)**	$ (24,113)
Total recognized in net periodic cost and other comprehensive loss	$ **56,490**	$ 44,669	$ **15,788**	$ 10,867
Weighted-average assumptions as of December 31 for the benefit obligation:				
Discount rate	**3.85%**	4.80%	**4.00%**	5.20%
Rate of compensation increase	**4.00**	4.50	**4.00**	4.50

14. Pension and Postretirement Benefit Plans (continued)

The expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

At December 31, 2014 and 2013, both the PPLP Plan and the PF Labs Plan had accumulated benefit obligations in excess of plan assets.

Estimated future cash flow information is as follows:

	Pension Plans	Postretirement Plans
	(In Thousands)	
Employer Contributions		
For the year ending December 31, 2015	$ 12,620	$ –
Expected Benefit Payments		
For the year ending December 31, 2015	14,542	2,422
For the year ending December 31, 2016	17,050	2,301
For the year ending December 31, 2017	12,436	2,293
For the year ending December 31, 2018	16,615	2,354
For the year ending December 31, 2019	16,914	2,501
For the years ending December 31, 2020–2024	101,585	15,165

The PPLP Plan

With the assistance of its investment manager, consultant and actuary, the PPLP Plan pursues a risk-conscious asset mix of 1940 Act Mutual Funds (that invest in equities, bonds and other investments, as detailed below) against a long-term rate-of-return-on-assets assumption of 7.00%.

The PPLP Plan's objectives include providing real growth of the plan through the total return on principal and income; preserving the assets and minimizing risk in the plan with appropriate diversification and investment strategies; and providing a source of retirement income for its participants and beneficiaries.

14. Pension and Postretirement Benefit Plans (continued)

The fair value of PPLP pension assets by asset category at December 31, 2014, was as follows:

Amounts	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Mutual funds	$ 257,622	$ –	$ –	$ 257,622
Total	$ 257,622	$ –	$ –	$ 257,622

The fair value of PPLP pension assets by asset category at December 31, 2013, was as follows:

Amounts	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Mutual funds	$ 246,767	$ –	$ –	$ 246,767
Total	$ 246,767	$ –	$ –	$ 246,767

Mutual funds: Valued at the net asset value of shares held by the PPLP Plan at year end based on quoted prices in an active market.

The PPLP Plan's current asset allocation and permissible ranges at December 31, 2014 are as follows. The PPLP Plan manages to approximate this specific allocation.

	Amount	%	% Allocation (Target)
	(In Thousands)		
Mutual funds	$ 257,622	100%	100%
Total	$ 257,622	100%	100%

The PF Labs Plan

With the assistance of its investment manager, consultant and actuary, the PF Labs Plan pursues a risk-conscious asset mix of 1940 Act Mutual Funds (that invest in equities and securities, as detailed below) against a long-term rate-of-return-on-assets assumption of 6.00%.

14. Pension and Postretirement Benefit Plans (continued)

The PF Labs Plan's objectives include providing real growth of the plan through the total return on principal and income; preserving the assets and minimizing risk in the plan with appropriate diversification and investment strategies; and providing a source of retirement income for its participants and beneficiaries.

The fair value of PF Labs pension assets by asset category at December 31, 2014 was as follows:

Amounts	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Mutual funds	$ 6,803	$ –	$ –	$ 6,803
Total	$ 6,803	$ –	$ –	$ 6,803

The fair value of PF Labs pension assets by asset category at December 31, 2013 was as follows:

Amounts	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Mutual funds	$ 6,235	$ –	$ –	$ 6,235
Total	$ 6,235	$ –	$ –	$ 6,235

Mutual funds: Valued at the net asset value of shares held by the PF Labs Plan at year end based on quoted prices in an active market.

The PF Labs Plan's current asset allocation, targets and permissible ranges at December 31, 2014 are as follows. The PF Labs Plan manages to approximate this allocation.

	Amount	%	% Allocation (Target)
	(In Thousands)		
Mutual funds	6,803	100%	100%
Total	6,803	100%	100%

15. Defined Contribution Plans

Certain entities included in the combined financial statements also sponsor a defined contribution 401(k) savings plan available to domestic non-union employees who meet certain minimum age and service requirements. Employer matching contributions through December 31, 2014 are 50% of each employee's contributions to the plan, limited to a maximum of 6% of each employee's covered earnings. The net cost of these plans totaled $10.2 million and $10.1 million for the years ended December 31, 2014 and 2013, respectively. The 2014 and 2013 costs included $4.3 million and $4.1 million, respectively, relating to additional contributions made by PPLP as a result of an amendment to the PPLP Pension Plan (see Note 14).

Certain entities included in the combined financial statements established defined contribution plans covering certain salaried employees. Awards under the plans vest over either a three or five-year period. The expense recognized for the years ended December 31, 2014 and 2013, was $6.4 million and $7.8 million, respectively.

16. Accumulated Other Comprehensive Income

The changes in the accumulated other comprehensive loss after tax for the years ended December 31, 2014 and 2013, were:

	Employee Benefit Plans	Available for Sale Securities	Total Accumulated Other Comprehensive Loss
	(In Thousands)		
Balance at December 31, 2012	$ (142,095)	$ 97,469	$ (44,626)
Other comprehensive gain before reclassifications	74,740	40,546	115,286
Amounts reclassified out of other comprehensive loss:			(87,825)
Infinity sale of securities	–	(138,015)	(138,015)
Prior service cost	990	–	990
Actuarial losses	8,654	–	8,654
Balance at December 31, 2013	(57,711)	–	(57,711)
Other comprehensive loss before reclassifications	**(48,814)**	–	**(48,814)**
Amounts reclassified out of other comprehensive loss:			
Prior service cost	**25,147**	–	**25,147**
Actuarial losses	**3,257**	–	**3,257**
Balance at December 31, 2014	**$ (78,121)**	**$ –**	**$ 78,121)**

17. Restructuring Charges

During 2014, the Companies incurred restructuring expenses relating to downsizing and streamlining of operations. The restructuring expenses were principally related to termination benefits for approximately 260 employees. Substantially all of the balance of the accrued restructuring expenses of $7.0 million at December 31, 2014 will be paid during 2015.

17. Restructuring Charges (continued)

Also as part of the 2014 restructurings and the reduction in headcount, the Companies reviewed their long-lived assets and determined that certain assets used in research and development were deactivated or are no longer useable. The Companies recognized accelerated depreciation of $8.1 million for the year ended December 31, 2014.

Details of the restructuring charges for the year ended December 31, 2014, are as follows:

	Original Charge	Utilized		Balance at December 31, 2014
		Cash	Non-Cash	
	(In thousands)			
Severance and other employee costs	$ 27,987	$ 20,956	$ –	$ 7,031
Write down of property and equipment	8,065	–	8,065	–
	$ 36,052	$ 20,956	$ 8,065	$ 7,031

18. Related Party Transactions

Certain entities in the combined financial statements are parties to license or royalty arrangements, for the manufacture and sale of various products to entities owned directly or indirectly for the benefit of the families of certain directors of the Companies. Royalty income under those agreements approximated $46.5 million and $48.5 million for the years ended December 31, 2014 and 2013, respectively and is included in Other Operating Income.

An independent associated company provides security services and environmental health and safety consulting to certain entities included in the combined financial statements. The value of these goods and services approximated $34.2 million and $39.1 million for the years ended December 31, 2014 and 2013, respectively and is included in General and administrative expenses.

18. Related Party Transactions (continued)

An entity included in the combined financial statements purchased raw materials used in the production of their products from an associated company that is not included in the combined financial statements. Those purchases totaled $52.2 million and $53.0 million for the years ended December 31, 2014 and 2013, respectively are included in Cost of Sales. The amount due to the associated company for those purchases was $0.6 million and $0.4 million as of December 31, 2014 and 2013, respectively and is included in Accrued Expenses and Other Liabilities.

An entity included in the combined financial statements sold finished goods of $31.8 million and $26.9 million, for the years ended December 31, 2014 and 2013, respectively, to an associated company that is not included in the combined financial statements. Amounts due from the associated company for those sales were $5.8 million and $3.7 million as of December 31, 2014 and 2013, respectively and are included in Receivables.

PPLP has a loan receivable from an independent associated company, which bears interest payable quarterly at 3.28% per annum and matures on September 30, 2020. The balance outstanding at December 31, 2014 and 2013, was $2.5 million and $2.8 million, respectively, and is included in Other Assets.

Effective January 1, 2006, PPLP entered into a lease agreement expiring in 2020 (the OSR Lease) to lease certain floors of One Stamford Forum located in Stamford, Connecticut, from One Stamford Realty L.P. (OSR). In conjunction with the execution of the OSR Lease, a security deposit of $6.0 million was paid by PPLP which is to be returned to PPLP in 2016, provided that at such time no event of default exists. Further, PPLP paid certain lease related expenses in the amount of $11.0 million which are being amortized over the life of the lease. The security deposit and lease related expenses made by PPLP to OSR are included in Other assets.

At December 31, 2014, future minimum lease payments under the OSR Lease are as follows (in thousands):

2015	$	6,406
2016		7,224
2017		7,224
2018		7,224
2019		7,224
Thereafter		7,224
	$	42,526

19. Collaboration Agreements

Redacted

19. Collaboration Agreements (continued)

Redacted

19. Collaboration Agreements (continued)

Redacted

20. Commitments and Contingencies

Leases

Aggregate future lease payments under non-cancelable operating leases with initial or remaining terms of more than one year at December 31, 2014 (including the OSR Lease) are as follows (in thousands):

2015	$	17,799
2016		19,366
2017		18,000
2018		17,202
2019		17,145
Thereafter		16,824
	$	106,336

Lease expense approximated $25.8 million and $18.3 million for the years ended December 31, 2014 and 2013, respectively.

Insurance

Insurance coverage for the Companies is purchased subject to market conditions existing at the time of purchase (including cost and availability). The market for particular types of insurance can be restrictive in terms and coverage, cost and available limits. As a result of these limits, the Companies may be self-insured. The market for product liability insurance, in particular, is restrictive in policy terms, available limits and cost. On October 1, 2001, the Companies began to self-insure product liability claims. The Companies' mix between self-insured and third party insured risks is evaluated at each renewal. If the Companies incur substantial liabilities that exceed the Companies' available insurance, if any, and that are in excess of existing accruals, there could be a materially adverse effect to the Companies' financial position, operations and cash flows.

20. Commitments and Contingencies (continued)

Legal Proceedings

The Companies record accruals for contingencies to the extent that the occurrence of the contingency is probable and the amount of liability is reasonably estimable. If the reasonable estimate of liability is within a range of amounts and some amount within the range appears to be a better estimate than any other, then the Companies record that amount as an accrual. If no amount within the range is a reasonable estimate, then the Companies record the lowest amount as an accrual. Such assessments involve a series of complex judgments and rely heavily on estimates and assumptions regarding future events that management has deemed reasonable. Excessive outcomes can occur, and it is possible that the Companies could incur judgments or enter into settlements in excess of the amounts accrued, which could have a material adverse effect on the Companies' financial position, operations and cash flows.

The Companies' accounting policy with respect to defense costs is to expense all costs as incurred and to record recoveries from insurance when collection is assured. The Companies record receivables for other non-defense cost insurance recoveries based on existing deductibles and coverage limits, when collection is assured.

Various lawsuits, claims and proceedings are pending or threatened against certain of the Companies. The most significant are described below. The Companies recorded expense for settlements of $5.5 million in 2014 and $41.8 million in 2013 with respect to these matters. The total accrued balance at December 31, 2014 was $65.5 million, which has been classified as a current liability.

OxyContin Tablets Litigation – Civil Product Liability Lawsuits

Numerous individuals have made product liability claims related to OxyContin tablets against certain of the Companies. Most of those claimants allege that (1) they suffered bodily injury from the use of OxyContin, including addiction, (2) the defendant Companies failed to adequately warn them about the risks of addiction, and (3) the defendant Companies "over-promoted" and aggressively and/or fraudulently marketed OxyContin. The claimants seek various forms of relief, including compensatory and punitive damages, interest and costs, and attorneys' fees.

20. Commitments and Contingencies (continued)

As of March 30, 2015, approximately 19 OxyContin product liability lawsuits are pending in the United States against the defendant Companies. Only one of those lawsuits is being actively litigated (e.g., the parties are now or soon will be engaged in discovery or substantive motion practice). The remaining lawsuits are inactive or the claimants are in the process of determining whether or not to participate in previously negotiated group settlements.

In addition, there are ten product liability putative class action lawsuits against the defendant Companies in Canada, collectively advancing claims on behalf of all Canadians who have been prescribed and/or used OxyContin. A hearing on the plaintiffs' motions for class certification has not yet been scheduled.

The defendant Companies believe they have meritorious defenses with respect to such claims and will vigorously defend them.

OxyContin Tablets Litigation – Regulatory, Law Enforcement and Governmental Matters

On October 4, 2007, the Attorney General of the Commonwealth of Kentucky and Pike County, Kentucky filed a claim against certain of the Companies in Pike County Circuit Court alleging such Companies violated the Kentucky Medicaid Fraud Statute and various tort law claims, including a claim for public nuisance. On June 4, 2013, the defendant Companies settled Pike County's claim for $4 million. On September 25, 2013, the Pike County Circuit Court issued an order finding that requests for admissions the Commonwealth had served with its complaint were deemed admitted by the defendant Companies on the ground that the defendant Companies had missed a purported deadline for responding to the requests, and the Pike County Circuit Court also denied the defendant Companies' alternative motion to permit them to amend their responses to the purportedly admitted requests. On November 8, 2013, the defendant Companies filed a petition with the Kentucky Court of Appeals asking the court to issue a writ directing the Pike County Circuit Court to rescind its order. On February, 28, 2014, the Kentucky Court of Appeals denied the petition, and on April 25, 2014, the defendant Companies filed an appeal of that decision to the Kentucky Supreme Court. On April 2, 2014, the Commonwealth filed with the Pike County Circuit Court a motion for partial summary judgment on liability and a motion for trial on damages only. The Pike County Circuit Court has stayed a decision on that motion pending the ruling by the Kentucky Supreme Court on the defendant Companies' petition, which will be rendered after the Kentucky Supreme Court hears oral arguments. The defendant Companies in this action believe they have meritorious defenses with respect to the Commonwealth's claims and will vigorously defend them.

20. Commitments and Contingencies (continued)

Patent Litigations

Generic competition for OxyContin in the United States could have a materially adverse impact on the Companies' financial position, operations and cash flows.

1. OxyContin Patent Litigations (reformulation)

Certain of the Companies received notices indicating that Food and Drug Administration (FDA) approval of an Abbreviated New Drug Application (ANDA) is being sought to engage in the commercial manufacture, use or sale of oxycodone hydrochloride extended release tablets in 10 mg, 15 mg, 20 mg, 30 mg, 40 mg, 60 mg and/or 80 mg dosage strengths prior to the expiration of certain of the Companies' patents related to low-ABUK oxycodone and reformulated OxyContin, and prior to the expiration of certain third party patents which PPLP licensed from such third parties. All such patents have been listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (the Orange Book) in connection with the reformulation of OxyContin.

In connection with the above notices, certain of the Companies commenced patent infringement litigation against Watson Laboratories, Inc. – Florida (Watson Florida), Andrx Labs, LLC (Andrx), Teva Pharmaceuticals USA, Inc. (Teva), Actavis Elizabeth LLC (Actavis), Ranbaxy Inc., Ranbaxy Pharmaceuticals Inc. and Ranbaxy Laboratories Limited (collectively, Ranbaxy), Par Pharmaceutical, Inc. (Par), Impax Laboratories Inc. (Impax), Sandoz, Inc. (Sandoz), Amneal Pharmaceuticals, LLC (Amneal), Mylan Pharmaceuticals Inc. and Mylan Inc, (collectively, Mylan), and Epic Pharma, LLC (Epic).

On April 26, 2013, certain of the Companies settled their litigations with Watson Florida and Andrx and Consent Judgments were entered on May 1, 2013. As part of the merger between the Watson and Actavis groups of companies, Actavis' ANDA was divested to Par in the fourth quarter of 2012. On September 20, 2013, certain of the Companies settled their litigations with Par and Consent Judgments were entered on September 24, 2013.

On December 28, 2012, certain of the Companies settled their litigations with Ranbaxy.

On September 23, 2013, a 12-day trial began against Impax, Teva and Sandoz regarding the validity and infringement of certain patents in suit.

20. Commitments and Contingencies (continued)

On November 27, 2013, certain of the Companies settled their litigations with Impax and Consent Judgments were entered on December 6, 2013.

On January 5, 2014, certain of the Companies settled their litigations with Sandoz and Consent Judgments were entered on January 8, 2014.

On January 14, 2014, the U.S. District Court for the Southern District of New York (the Southern District) found certain of the patents in suit infringed but invalid in the actions against Teva, including patents related to low-ABUK oxycodone. On October 6, 2014, the plaintiff Companies filed their appeal of this decision.

On January 29, 2014, the Southern District dismissed the actions against Mylan and Epic, based on the January 14, 2014 decision in the Teva action. The plaintiff Companies are appealing these dismissals.

On July 14, 2014, a five-day trial began against Teva and Amneal in the Southern District regarding the validity and infringement of certain of the patents in suit.

On or around February 18, 2014, certain of the Companies received notices indicating that Teva is seeking FDA approval of an ANDA to engage in the commercial manufacture, use or sale of oxycodone hydrochloride extended release tablets in 10 mg, 15 mg, 20 mg, 30 mg, 40 mg, 60 mg and 80 mg dosage strengths prior to the expiration of a certain third party patent which PPLP licensed from a third party. In connection with the above notices, on April 3, 2014, certain of the Companies commenced patent infringement litigation against Teva. On December 18, 2014, certain of the Companies entered into a Settlement Agreement with Teva. On December 23, 2014, Consent Judgments were entered as to U.S. Patents 6,488,963, 8,309,060 and 8,337,888. The appeal is going forward as to the low ABUK patents and one of the patents PPLP licensed from a third-party.

On or about March 11, 2015, certain of the Companies received a supplemental notice from Mylan indicating that FDA approval of an ANDA is being sought to engage in the commercial manufacture, use or sale of oxycodone hydrochloride extended release tablets in 10 mg, 15 mg, 20 mg, 30 mg, 40 mg, 60 mg, and 80 mg dosage strengths prior to the expiration of certain of the Companies' patents related to reformulated OxyContin. Certain of the Companies are considering their response.

20. Commitments and Contingencies (continued)

To the extent the plaintiff Companies do not prevail in the litigation and/or to the extent the FDA approves one or more of the proposed ANDAs, the Companies could experience generic competition for OxyContin.

Currently, none of the remaining defendants has final or tentative FDA approval or any claim to 180-day marketing exclusivity with respect to their controlled release generic products.

2. Depomed Patent Litigation

On or around January 29, 2013, Depomed, Inc. (Depomed) filed a claim against certain of the Companies in the U.S. District Court for the District of New Jersey (the New Jersey District) alleging that OxyContin infringes various Depomed patents. On March 28, 2013, the defendant Companies served their Answer and Counterclaims. On July 23, 2013, Depomed filed an Amended Complaint, adding an additional patent. The parties have agreed to drop two of the patents from the litigation. At the request of certain of the Companies, on July 10, 2014, the Patent and Trademark Office instituted three Inter Partes Reviews (IPRs) to determine whether the two Depomed patents remaining in suit are invalid. On July 25, 2014, the New Jersey District court stayed the litigation pending the outcome of the IPRs. On March 19, 2015, a hearing was held in the IPRs. To the extent the defendant Companies do not prevail in the litigation, they would be liable for damages for sales of OxyContin.

3. Butrans Patent Litigation

On or around August 14, 2014, PPLP received a notice indicating that FDA approval of an ANDA is being sought by Watson Laboratories, Inc. (Watson Labs) to engage in the commercial manufacture, use or sale of Buprenorphine Transdermal System (BTS), 5, 10 and 20 mcg/hr dosage strengths, prior to the expiration of certain of PPLP's patents related to BTS. On or around October 9, 2014, PPLP received a notice indicating that FDA approval of an ANDA is being sought by Watson Labs to engage in the commercial manufacture, use or sale of BTS, 15 mcg/hr dosage strength prior to the expiration of certain of PPLP's patents related to BTS. In connection with the above notices, on September 24, 2014, and on November 14, 2014, PPLP commenced patent infringement litigations against Watson Labs in the U.S. District Court for the District of Delaware (the Delaware District). Since PPLP filed suit within 45 days of receipt of the notices, PPLP, under the Hatch-Waxman Act, is entitled to an automatic statutory stay, which effectively prevents Watson Labs from launching its generic BTS from the date of receipt of its

20. Commitments and Contingencies (continued)

notices until the earlier of: (i) 30 months or (ii) a court decision finding the patents in-suit invalid, unenforceable, or not infringed. The trial is currently scheduled for August 1, 2016.

On or around January 29, 2015, PPLP received a notice indicating that FDA approval of an ANDA is being sought by Actavis Laboratories UT, Inc. (Actavis UT) to engage in the commercial manufacture, use or sale of BTS, 5, 10, 15 and 20 mcg/hr dosage strengths, prior to the expiration of certain of PPLP's patents related to BTS. In connection with the above notice, on February 27, 2015, PPLP commenced patent infringement litigations against Actavis UT in the Delaware District. Since PPLP filed suit within 45 days of receipt of the notice, PPLP, under the Hatch-Waxman Act, is entitled to an automatic statutory stay, which effectively prevents Actavis UT from launching its generic BTS from the date of receipt of its notice until the earlier of: (i) 30 months or (ii) a court decision finding the patents in-suit invalid, unenforceable, or not infringed.

To the extent PPLP does not prevail in the litigation and/or to the extent the FDA approves one or more of the proposed ANDAs, PPLP could experience generic competition for BTS.

4. Collegium

On or about February 12, 2015, certain of the Companies received a notice indicating that Collegium Pharmaceutical, Inc. is seeking FDA approval of a 505(b)(2) New Drug Application (NDA) for its XTAMPZA ER™ oxycodone product prior to the expiration of all patents listed in the Orange Book for OxyContin. On March 24 and 26, 2015, certain of the Companies commenced patent infringement litigation in the Delaware District and in the District Court for the District of Massachusetts, respectively, alleging infringement of the low-ABUK oxycodone patents and another patent owned by PPLP.

To the extent that the FDA approves XTAMPZA ER™, the Companies would experience branded competition for OxyContin.

20. Commitments and Contingencies (continued)

Insurance Coverage Litigations

The Companies have a $1 billion tower of product liability insurance covering certain years when plaintiffs alleged certain damages related to OxyContin. Previously, certain of the Companies entered into settlement agreements with certain OxyContin insurers. In 2011, certain of the Companies settled with another OxyContin insurer that is part of the product liability insurance tower. The Companies recorded insurance proceeds of $0.3 million and $1 million for the years ended December 31, 2014 and 2013, respectively, under the settlements referenced above and/or pertinent insurance policies.

The Companies have now exhausted approximately $210.4 million of available insurance under the $1 billion tower. The balance of the payments received from insurance companies did not reduce the limits of insurance. Further recoveries from this insurance tower are not assured.

Regulatory, Law Enforcement and Governmental Matters

The Companies and their facilities are regularly inspected by, and the Companies are subject to inquiries from, various regulatory agencies, including the FDA, the Federal Trade Commission and the Drug Enforcement Administration.

Three Citizen Petitions were filed with the FDA each requesting that the FDA determine whether OxyContin sold pursuant to NDA No. 20-553 by PPLP has been voluntarily withdrawn from the market due to reasons other than safety and effectiveness. On April 16, 2013, the FDA denied the three Citizen Petitions, finding that the original formulation of OxyContin was withdrawn for reasons of safety. As a result, the FDA will not accept or approve abbreviated new drug applications for products that reference NDA No. 20-553. On that same date, the FDA granted a supplement to the labeling for reformulated OxyContin to include language regarding the drug's abuse-deterrent properties.

On May 8, 2012, PPLP and certain other pharmaceutical companies and medical groups received a letter from the United States Senate Committee on Finance (SFC) requesting information about relationships between such pharmaceutical companies and several professional medical associations, patient advocacy groups, and key opinion leaders in the field of pain management. PPLP has provided responsive documents and has not had any requests from the SFC since 2013.

20. Commitments and Contingencies (continued)

On July 13, 2012, PPLP filed a Citizen Petition requesting the FDA not to approve any ANDA to reformulated OxyContin (NDA No. 22-272), unless the ANDA filer satisfies certain in vitro and in vivo criteria related to the ability to misuse or abuse the ANDA formulation. That Citizen Petition was denied on January 23, 2013, on non-substantive grounds, and on February 22, 2013, PPLP filed a petition for reconsideration. On March 21, 2014, the FDA denied the petition for reconsideration.

On July 25, 2012, a Citizen Petition was filed by a third party organization with the FDA that seeks a change in labeling for opioid analgesic medications that would modify those labels in the following respects for use in patients with chronic non-malignant pain: (i) to limit indication to patients suffering from severe pain, (ii) with a maximum daily dose of 100 mg of morphine equivalents and (iii) with a maximum duration of 90 days. On September 10, 2013, the FDA granted in part and denied in part that Citizen Petition. In its decision, the FDA declined to specify or recommend a maximum daily dose or duration of use for any opioid but did recommend certain changes to the safety labeling of extended release/long-acting opioids, including to the indications and usage section of those labels. Shortly after and consistent with the decision, the FDA issued letters to PPLP requesting certain changes be applied to the safety labeling for OxyContin, Butrans, and MS Contin. The Companies have reached agreement with the FDA on changes to the label.

On October 21, 2013, PPLP filed a Citizen Petition requesting that the FDA (a) adopt and announce a guidance detailing in vitro and in vivo tests sufficient to establish that proposed generic products to reformulated OxyContin have equivalent abuse-deterrent properties and (b) refuse to approve any ANDA to reformulated OxyContin that fails to meet the acceptance criteria set forth in the requested guidance. On March 21, 2014, the FDA responded to the petition by denying it in part and granting it in part.

In December 2013, PPLP received a subpoena from the New York Attorney General's office that requested a broad array of documents and items related to the marketing of OxyContin and certain other PPLP programs and websites. PPLP is cooperating and producing responsive materials on a rolling basis. In September 2014, PPLP received a Request for Information from the Tennessee Attorney General seeking documents related to the marketing of OxyContin, certain programs and the content of some of its websites. In August, 2014, PPLP received a request for documents from the California Attorney General pursuant to the prior Consent Judgment filed in May, 2007.

20. Commitments and Contingencies (continued)

Steven May, a former PPLP sales representative, and Angela Radcliffe, the wife of a former PPLP District Manager (Mark Radcliffe), brought an action in the U.S. District Court for the Southern District of West Virginia (the West Virginia District) under the False Claims Act alleging that certain of the Companies misled physicians by stating that OxyContin was twice as potent as MS Contin thus making it appear that OxyContin was cheaper per dose than MS Contin. An earlier qui tam suit based on the same facts had been filed by Mark Radcliffe in federal court in Virginia. That action was dismissed, and that dismissal was upheld on appeal. The pending action was similarly dismissed by the West Virginia District (on grounds of res judicata), but the Fourth Circuit reversed and remanded to the West Virginia District for further proceedings. While the Companies have filed a petition for certiorari, the Fourth Circuit has not stayed its mandate while the certiorari petition is pending. In October 2014, the West Virginia District again dismissed plaintiffs' claims against the defendant Companies. It is now pending appeal to the Fourth Circuit.

On May 21, 2014, two counties in the State of California (the California plaintiff) filed a complaint in state court against certain of the Companies and five other pharmaceutical companies alleging false and deceptive marketing practices. On June 2, 2014, the City of Chicago (the Chicago plaintiff) filed a claim in state court against the same defendant Companies and those other pharmaceutical companies, making similar allegations and seeking similar relief (the Chicago action). The defendants removed each action to federal court. The California plaintiff filed a motion to remand, which the federal court granted on November 12, 2014. The California plaintiff subsequently filed an amended complaint, which was their second amended complaint, and the defendants have filed various demurrers or motions to dismiss that complaint. The Chicago plaintiff did not file a motion to remand. After the defendant Companies filed a motion to dismiss the Chicago action, the Chicago plaintiffs filed an amended complaint. The defendant Companies moved to dismiss the amended complaint, which is now fully briefed on both sides. The defendant Companies in these actions believe they have meritorious defenses with respect to both the California plaintiff and the Chicago plaintiff's claims and will vigorously defend them.

In March 2015, certain of the Companies received a Civil Investigative Demand from the Massachusetts Attorney General seeking documents and materials related to the marketing of OxyContin, payments to healthcare professionals in Massachusetts, and information the Companies allegedly knew about abuse, misuse and addiction to OxyContin. The Companies anticipate producing materials and cooperating with the investigation.

21. Common Stock

Common stock is comprised of the following:

	Year ended December 31	
	2014	2013
	(In Thousands)	
Common stock, $1 par value – PRA Holdings, Inc.	**$ 1**	$ 1
Authorized shares – 500	**–**	–
Issued and outstanding shares – 500	**–**	–
Common stock, $1 par value – Pharma Associates Inc.	**1**	1
Authorized shares – 1,000	**–**	–
Issued and outstanding shares – 1,000	**–**	–
Common stock, $1 par value – IKUWA Holdings Inc.	**1**	1
Authorized shares – 1,000	**–**	–
Issued and outstanding shares – 1,000	**–**	–
Common stock, $1 par value – Purdue Products Inc.	**1**	1
Authorized shares – 1,000	**–**	–
Issued and outstanding shares – 1,000	**–**	–
Common stock, $1 par value – Purdue Pharmaceutical Products Inc.	**1**	1
Authorized shares – 1,000	**–**	–
Issued and outstanding shares – 1,000	**–**	–
	$ 5	$ 5

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